

Message Text

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PAGE 01 JIDDA 00176 091229Z

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ACTION TRSE-00

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 9783

INFO AMEMBASSY BONN

AMEMBASSY ABU DHABI

AMEMBASSY DAMASCUS

AMEMBASSY KHARTOUM

AMEMBASSY MANAMA

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY CAIRO

AMEMBASSY LONDON

AMEMBASSY TOKYO

AMEMBASSY DOHA

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TAGS: EINV, EAID, XF, SA, US

SUBJ: TRIPARTITE INVESTMENT IN LDC'S: SAUDI VEHICLES
AND ATTITUDES

REF : STATE 281356

BEGIN SUMMARY: POTENTIAL FOR SAUDI INVOLVEMENT IN TRIPARTITE
INVESTMENT APPEARS TO BE RAPIDLY IMPROVING. SOME INSTITUTIONS
ALREADY EXIST AND MORE ARE LIKELY. SUBJECT SHOULD BE PART OF
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PAGE 02 JIDDA 00176 091229Z

SIDE-BAR DIALOUGE TO WORK OF ECON COMMISSION. END SUMMARY.

1. VISIT OF ASST SEC PARSKY JAN 6 GAVE OCCASION FOR REVIEW OF TRIPARTITE INVESTMENT INTEREST BY SAUDI ARABIA WITH MINSTATE FINANCE MOHAMMED ABA AL KHAYL, ONE OF THE PRIME POLICY-MAKERS IN THIS FIELD. HE MENTIONED TWO INSTITUTIONS WHICH HAVE ALREADY BEEN FORMED, AT LEAST ON PAPER, AND WHICH WILL BE THE MAJOR INSTRUMENTS FOR THE MOMENT FOR INVESTING SAUDI FUNDS IN THIRD COUNTRIES. THESE ARE THE ARAB INVESTMENT COMPANY (FUND) AND THE SAUDI ARABIAN DEVELOPMENT FUND. THE FORMER IS IN BUSINESS BUT THE LATTER HAS YET TO HAVE A STAFF OR EVEN THE HEAD OF IT NOMINATED BY SAG.

2. THE ARABIAN INVESTMENT FUND IS HEADED BY A KUWAITI, IBRAHIM AL IBRAHIM, WHO IS WELL AND FAVORABLY KNOWN IN WESTERN FINANCIAL CIRCLES. ESTABLISHED IN RIYADH, THE FUND HAS AN AMERICAN ADVISER (A MR. IVES) FROM CHEMICAL BANK, AND A BRITISH ADVISER. IT WAS FOUNDED BY SEVEN ARAB COUNTRIES, INCLUDING KUWAIT, ABU DHABI, QATAR, EGYPT, SUDAN, SAUDI ARABIA, AND BAHRAIN. SYRIA MAY BECOME THE EIGHTH MEMBER SHORTLY. ITS FIRST LOANS WILL BE MADE TO SUDAN, APPARENTLY IN COOPERATION WITH THE BIG BRITISH ORGANIZATION LONHRO, WHICH IS OWNED 14 PERCENT BY KUWAIT. IT WILL BE FOR A SUGAR PROCESSING COMPLEX AND WILL BE FOLLOWED BY OTHER SUDANESE INVESTMENTS, ACCORDING TO PRESS REPORTS. OTHER PARTNERS IN THIS VENTURE ACCORDING TO A SOURCE IN THE FUND ARE NISSHO OF JAPAN AND A DIVISION OF GULF OIL.

3. ADDITIONAL PROJECTS NOW BEING DISCUSSED INCLUDE: A GOODYEAR TIRE PLANT, A LEYLAND ASSEMBLY PLANT AND A FIAT TRACTOR PLANT-- ALL IN EGYPT. THE FUND IS CONSIDERING FURTHER PROJECTS IN THE SUDAN INCLUDING A LIVESTOCK OPERATION THAT MAY INCLUDE SOMALIA AND A SOYBEAN INDUSTRIAL PROJECT. SUPPOSEDLY THEY HAVE BEEN GRANTED 100,000 ACRES FOR THESE AGRICULTURAL PROJECTS.

4. THE FUND WILL TAKE EQUITY AS WELL AS MAKE LOANS. IBRAHIM IBRAHIM FORMERLY HEADED THE KUWAIT FOREIGN TRIN INVESTMENT AND CONTRACTING COMPANY. HE IS A GRADUATE OF THE UNIVERSITY OF OREGON IN BUSINESS ADMINISTRATION IN HIS EARLY THIRTIES.

5. EXIM BANK CHAIRMAN WILLIAM CASEY VISIT THE FUND LAST LIMITED OFFICIAL USE

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PAGE 03 JIDDA 00176 091229Z

AUTUMN AND INTERVIEWED IBRAHIM ABOUT HIS POSSIBLE INTEREST IN PARALLELING LENDING OPERATIONS OF EXIM. THE IDEA SEEMED TO BE WELL RECEIVED AS A MEANS OF EXPEDITING LOANS TO VIABLE PROJECTS. HOWEVER, THE PRIORITIES FOR THE FUND APPEAR TO BE ARAB COUNTRIES FIRST, THEN POSSIBLY ISLAMIC ONES. THOSE PRIORITIES MAY BE BENT RATHER LIBERALLY AS THE HEAVY FUND FLOW CONTINUES INTO 1975. INITIAL SHARED CAPITAL OF \$155 MILLION IS LIKELY TO BE RAISED VERY RAPIDLY.

6. THE SAUDI ARABIAN DEVELOPMENT FUND IS, AS NOTED, STILL ONLY A PAPER ORGANIZATION WITHOUT STAFF, OFFICE, OR HEAD. IT IS LIKELY THAT IT WILL BE ESTABLISHED DURING THE CURRENT QUARTER, HEADQUARTERED IN RIYADH, PROBABLY INITIALLY IN THE MINISTRY ITSELF OR IN A VILLA. VERY LITTLE IS KNOWN OF THE BACKGROUND TO THIS FUND, NOMINALLY CAPITALIZED HEAVILY AT \$2.8 BILLION BUT ONLY HALF OF THIS WILL BE AVAILABLE IN NEXT 3 YEARS. ITS LENDING LIMITS WILL BE 50 PERCENT OF THE OVERALL PROJECT COST OR FIVE PERCENT OF THE CAPITAL OF THE FUND. NO MORE THAN 10 PERCENT OF CAPITAL GRANTED TO ONE COUNTRY. SUPPOSEDLY THERE WILL BE NO DISTINCTION BETWEEN ARAB AND NON-ARAB STATES. BORROWERS MUST PROVIDE GUARANTEES AGAINST NATIONALIZATION OR SEQUESTRATION OF THE ASSETS OF THE FUND. (AN INTERESTING PROVISION IN VIEW OF OUR OWN INTEREST IN AN OPIC AGREEMENT WITH SAUDI ARABIA.) THE WORKING OUT OF THE ACTUAL RULES OF OPERATION WILL BE MONTHS AWAY IN OUR OPINION.

7. THERE ARE OTHER FUNDS NOT MENTIONED BY THE MINISTRY WHICH HAVE POTENTIAL IN THIS FIELD OF TRIPARTITE INVESTMENT EFFORTS, NOTABLY THE ISLAMIC DEVELOPMENT BANK, ON WHICH A GOOD DEAL OF REPORTING IS ALREADY AVAILABLE IN WASHINGTON, AND THE NEW PETROLEUM INVESTMENT FUND OF OAPEK, A FAVORITE IDEA OF GOVERNOR ABDUL HADY TAHER. FURTHER REPORTS ON THE PRESENT STATUS OF BOTH WILL FOLLOW.

8. TO SUM UP, EMBASSY HAS LONG FELT THAT U.S. BUSINESS AND PERHAPS GOVERNMENT SHOULD CONCENTRATE ON NATURAL SAUDI DESIRE TO USE THEIR WEALTH IN THE THIRD WORLD. THE VEHICLES THEY ARE INVENTING NEED STAFF AND MANAGEMENT TECHNIQUES WHICH SHOULD OR COULD MOST EASILY COME FROM U.S. FINANCIAL INSTITUTIONS BOTH PRIVATE AND GOVERNMENTAL. IN VIEW OF THE NEW INTEREST IN WASHINGTON, WE ARE THIS WEEK ASSIGNING AN OFFICER TO WORK UP LIMITED OFFICIAL USE

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PAGE 04 JIDDA 00176 091229Z

A MORE COMPREHENSIVE REPORT ON CURRENT SAUDI INTENTIONS AND OPPORTUNITIES FOR U.S. BUSINESS IN FIRST CREATING BETTER VEHICLES FOR SUCH INVESTMENTS AND SECONDLY MAKING USE OF SUCH FUNDS EITHER PARTIALLY OR WHOLLY TO PROVIDE THE NECESSARY CAPITAL IN THIRD COUNTRY VENTURES OR PROJECTS. TRIANGULAR INVESTMENT IDEAS (INCLUDING PERHAPS A SAUDI VERSION OF THE EXIM BANK) COULD WELL BE DISCUSSED INFORMALLY THROUGH THE MECHANICS OF THE U.S./SAUDI JOINT ECONOMIC COMMISSION AS A SIDE-BAR SUBJECT TO REGIONAL DEVELOPMENT OF INDUSTRY AND OF AGRICULTURE.

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